

Office of the Treasurer & Tax Collector
City and County of San Francisco

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Treasury Oversight Committee

June 20, 2023

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| May Monthly Report 2023 | Separate handout |

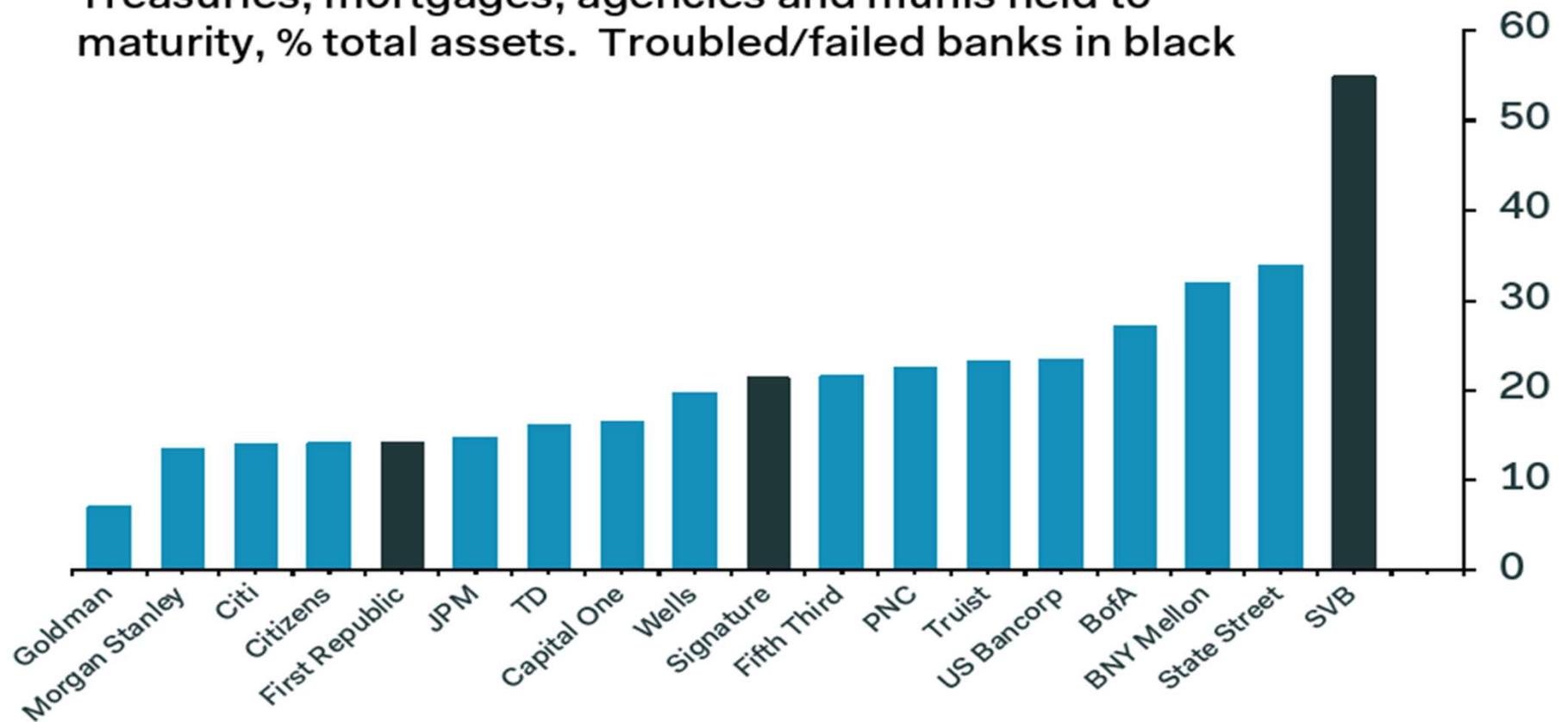
SVB Bank Crisis Timeline

- 2020 to 2022 – Huge inflows of deposits predominately from startup firms in the tech industry caused SVB deposit base to triple
- March 8th - SVB announced \$1.8 billion in losses from its sale of securities held in both its AFS (available for sale) and HTM (hold to maturity)
- March 9th – A flood of withdrawals avalanched as the relatively small group of investors began to demand their funds.
- March 10th – SVB could not generate enough cash to meet withdrawal demand and the FDIC took over the bank
- March 12th – the Federal Reserve, Department of the Treasury, and Federal Deposit Insurance Corporation moved quickly to guarantee deposits and provide access to depositor funds on the following Monday, March 13th and the FED also announced an emergency lending program to allow distressed banks ability to borrow against collateral at favorable rates to avoid taking market losses and shore up confidence in the banking system

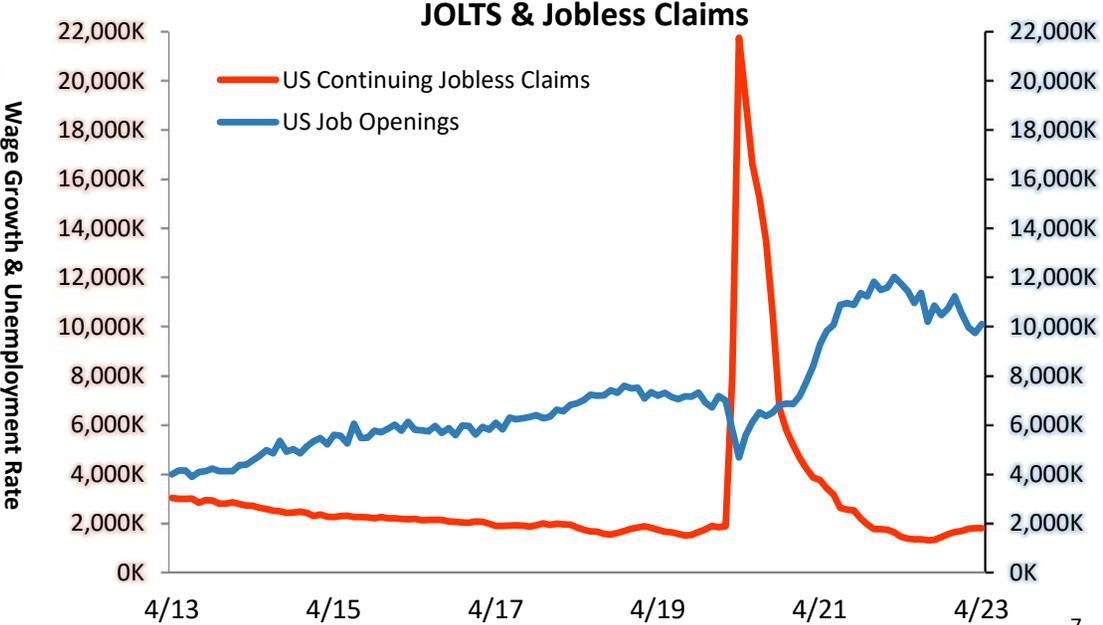
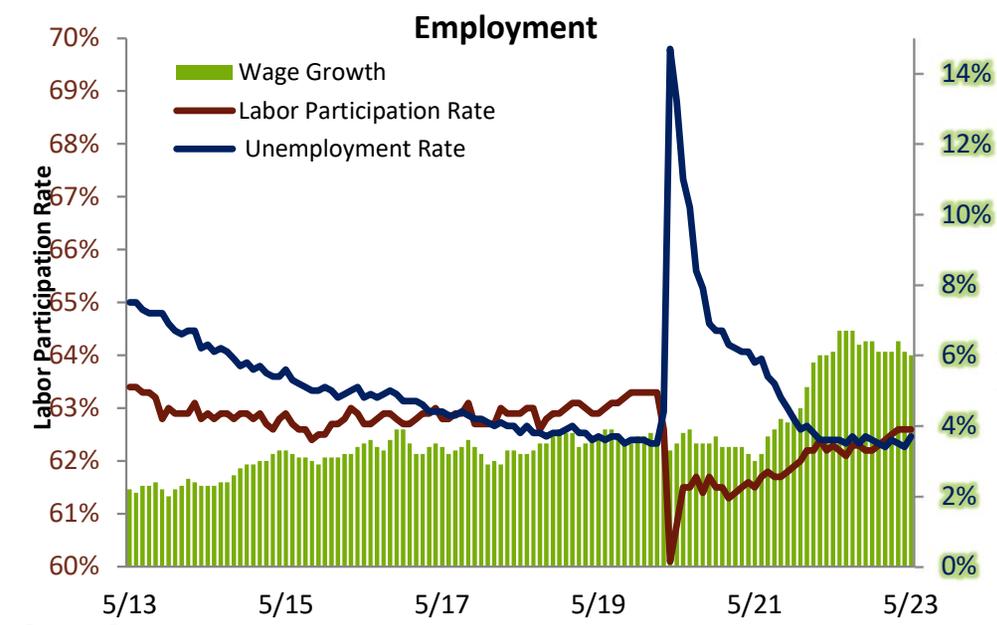
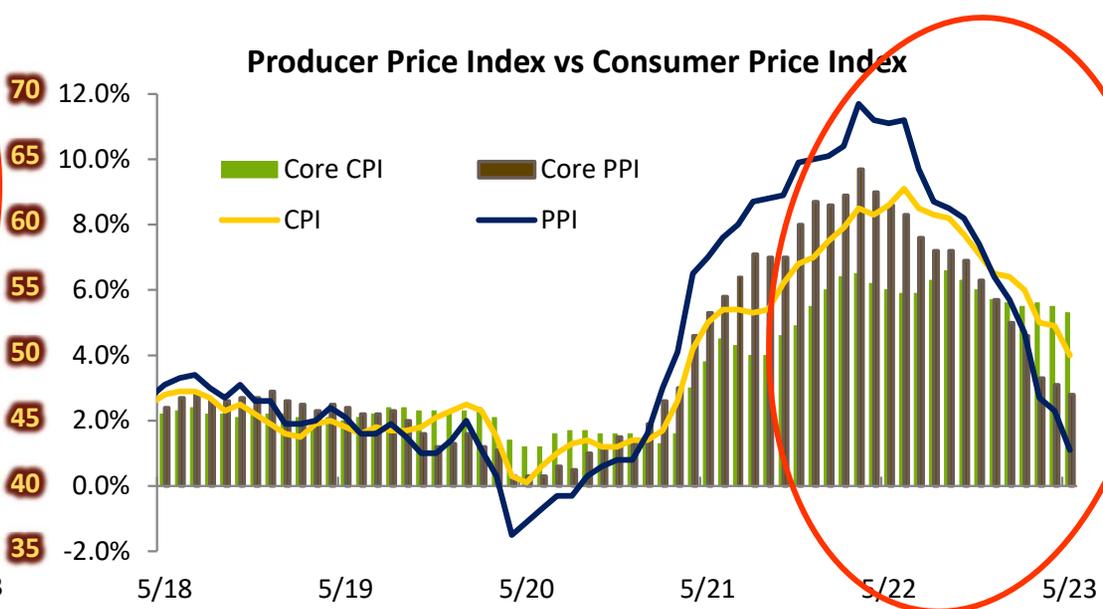
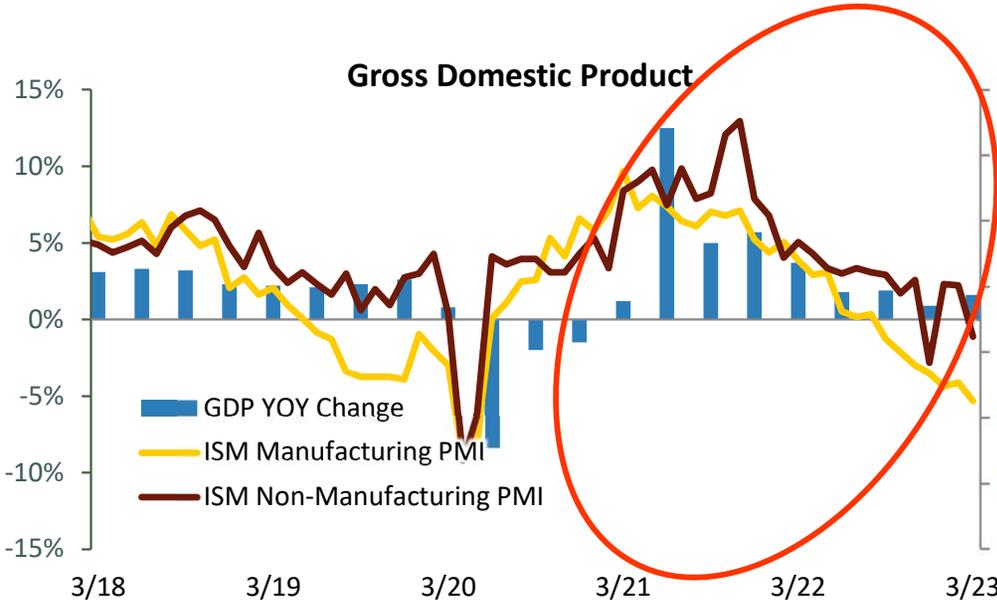
Silicon Valley Bank – Collapse Synopsis

- Collapse was caused by a sequence of events and conditions
- Bank customers and deposits were concentrated among start-ups in technology and life science industries.
- Bank invested the bulk of these deposits in longer term (30 years+) Treasury and mortgage bonds
- Bank had to sell AFS and HTM assets from their investment portfolio (at a \$1.8 billion loss) to raise liquidity to meet withdrawal demand. At the same time, it had to raise capital to plug the investment loss in order to maintain regulatory capital and leverage requirements. The timing of the public disclosure of the loss and failed capital raise triggered panic among its sophisticated customer base.
- Lack of Risk Management and oversight – disregard for basic asset/liability management
- Technology (i.e., VCs spreading message through social media) contributed to panic and quickened bank run

Treasuries, mortgages, agencies and munis held to maturity, % total assets. Troubled/failed banks in black



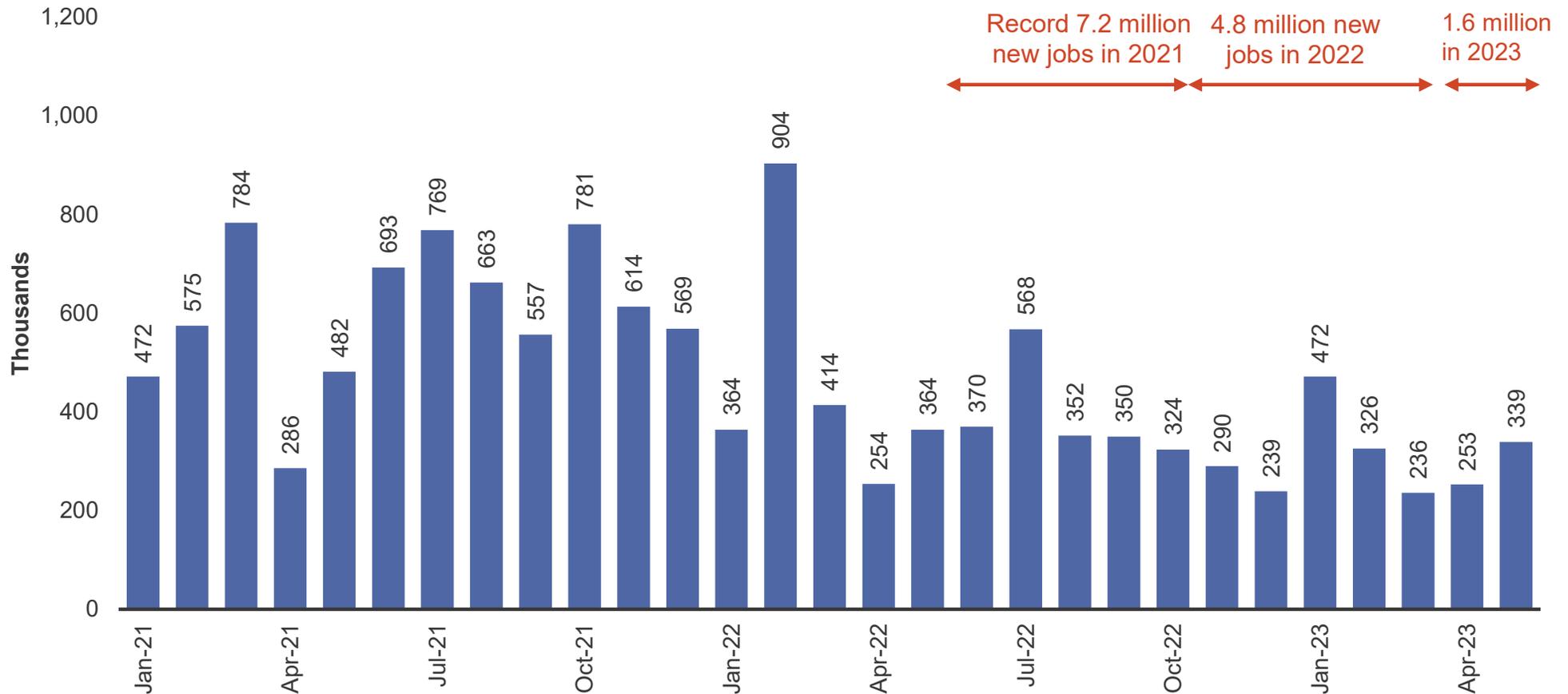
Key Economic Data



Source: Bloomberg

Employment Continues to Show Strength, May Payrolls Surprise to the Upside

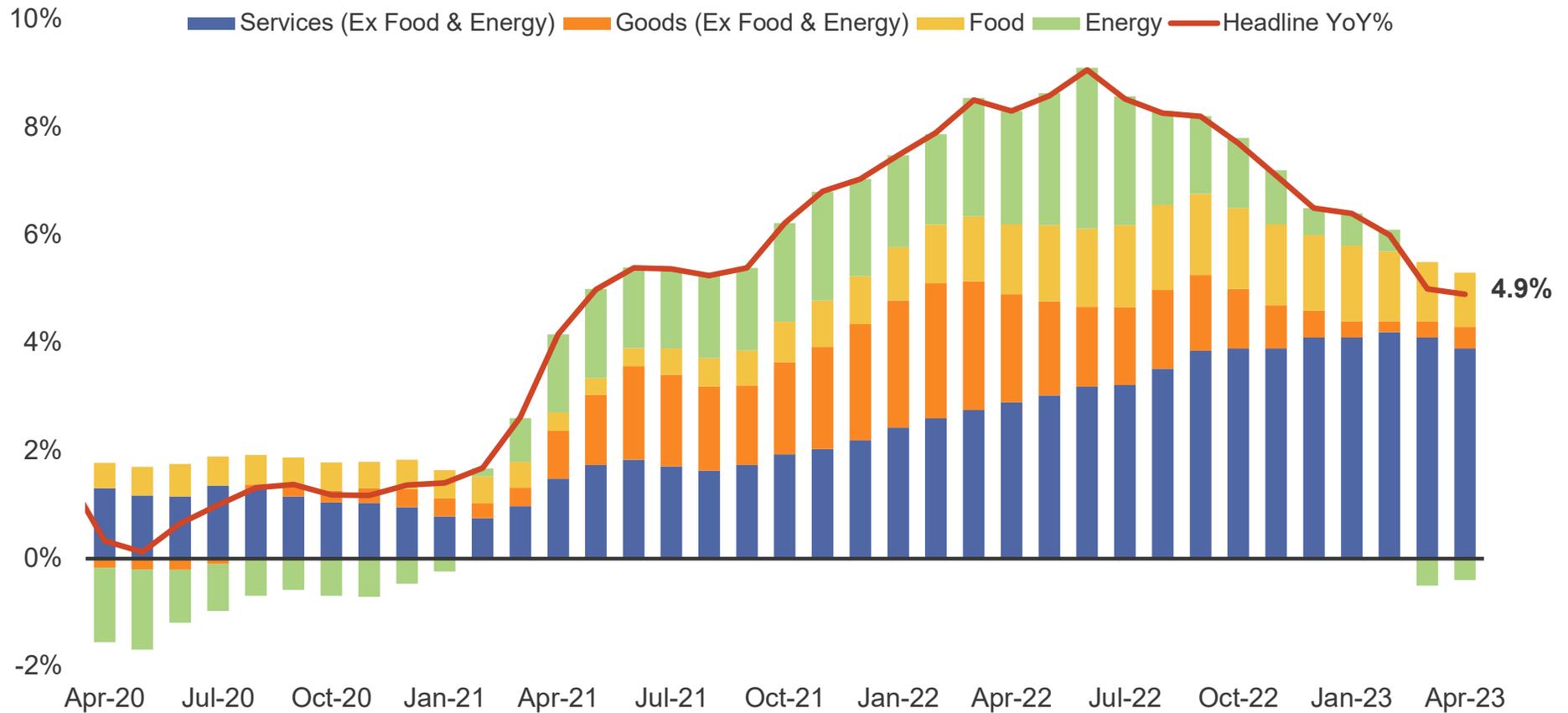
Monthly Change In Nonfarm Payrolls



Source: Bloomberg, as of May 2023. Data is seasonally adjusted.

Inflation Shows Hints of Moderating

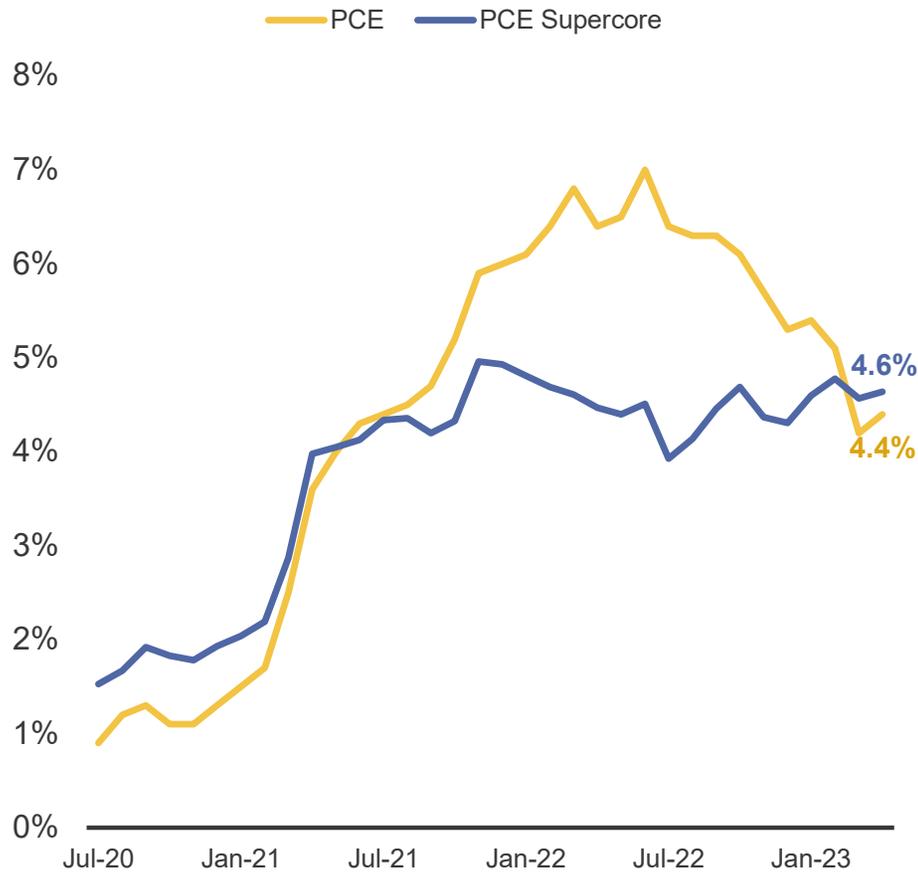
Factors Contributing to the Consumer Price Index (CPI YoY)



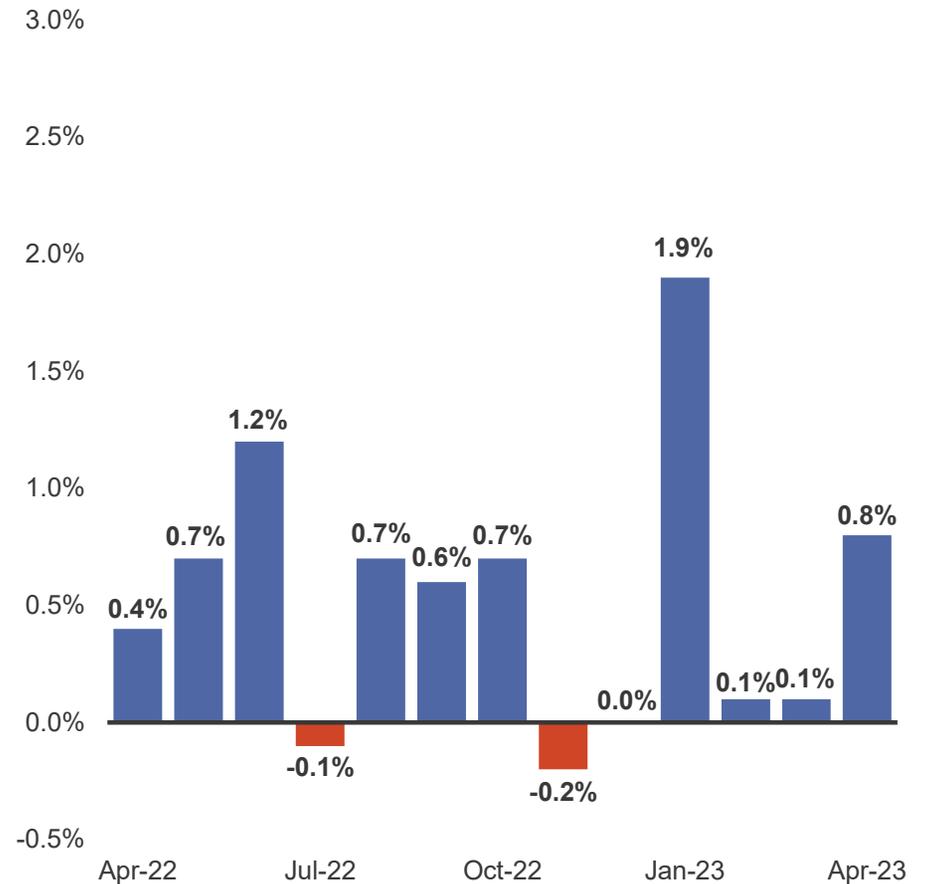
Source: Bloomberg, as of April 2023.

Fed's Preferred Gauge of Inflation Remains Elevated But Households Continue to Spend

Personal Consumption Expenditure Price Index



Personal Spending
Personal Consumption Expenditure MoM



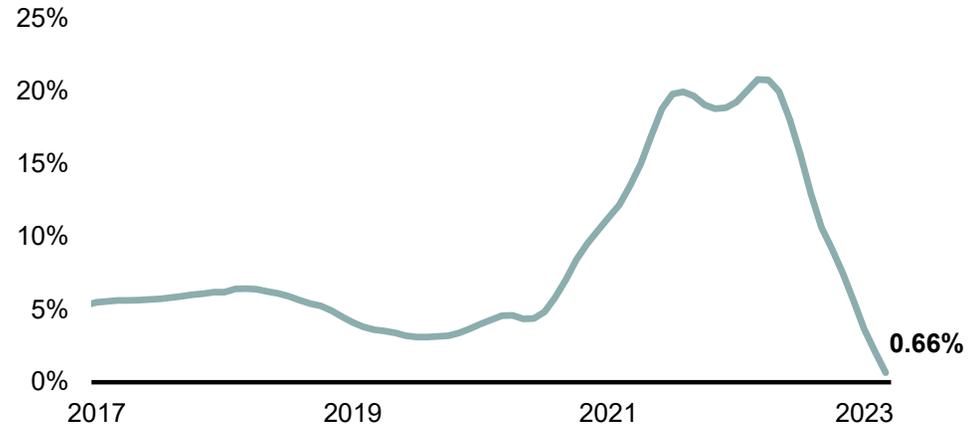
Source: Bloomberg, Federal Reserve, and U.S. Bureau of Economic Analysis as of April 2023.
Supercore inflation is comprised of PCE core services less housing.

The Impact of Higher Rates on the Housing Market

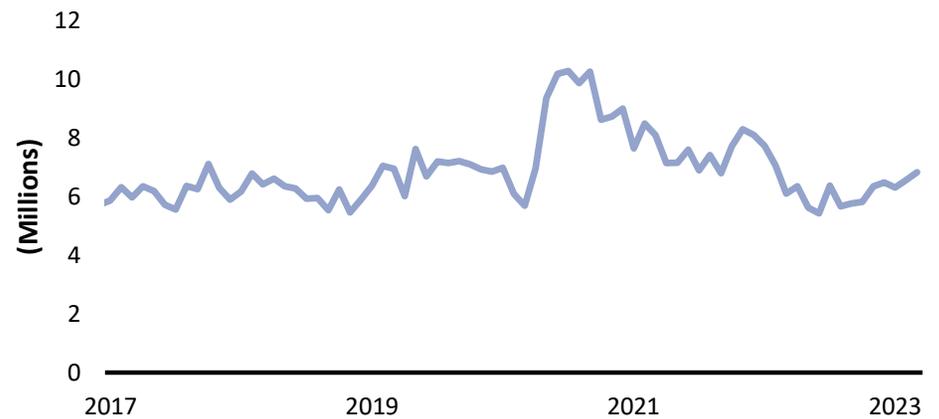
Freddie Mac 30-Year U.S. Mortgage Rates



National Home Price Index (YoY)



New Home Sales (SAAR)



Source: Bloomberg, Freddie Mac Commitment Rates as of 6/14/2023.

FOMC 2023 Federal Fund Rate History – Fed Funds Rate Target Raised to 5.00% to 5.25%

Dot Plot From Meeting Date June 14, 2023

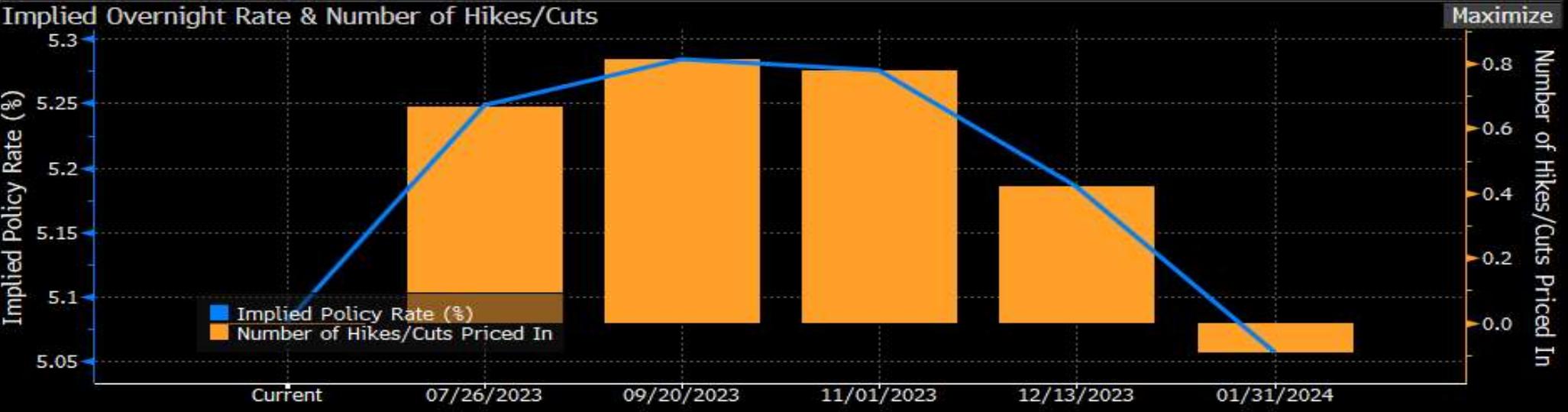


Source: Federal Reserve

Interest Rate Probability as 6/15/2023

Region: United States » Instrument: Fed Funds Futures »
 Target Rate 5.25 Pricing Date 06/15/2023
 Effective Rate 5.08 Cur. Imp. O/N Rate 5.081

| Meeting | #Hikes/Cuts | %Hike/Cut | Imp. Rate Δ | Implied Rate | A.R.M. |
|------------|-------------|-----------|-------------|--------------|--------|
| 07/26/2023 | +0.668 | +66.8% | +0.167 | 5.248 | 0.250 |
| 09/20/2023 | +0.813 | +14.5% | +0.203 | 5.284 | 0.250 |
| 11/01/2023 | +0.777 | -3.6% | +0.194 | 5.275 | 0.250 |
| 12/13/2023 | +0.422 | -35.4% | +0.106 | 5.186 | 0.250 |
| 01/31/2024 | -0.092 | -51.5% | -0.023 | 5.057 | 0.250 |



Treasury Yields Rise On Fed Rate Hike Expectations

2-Year Treasury Yield

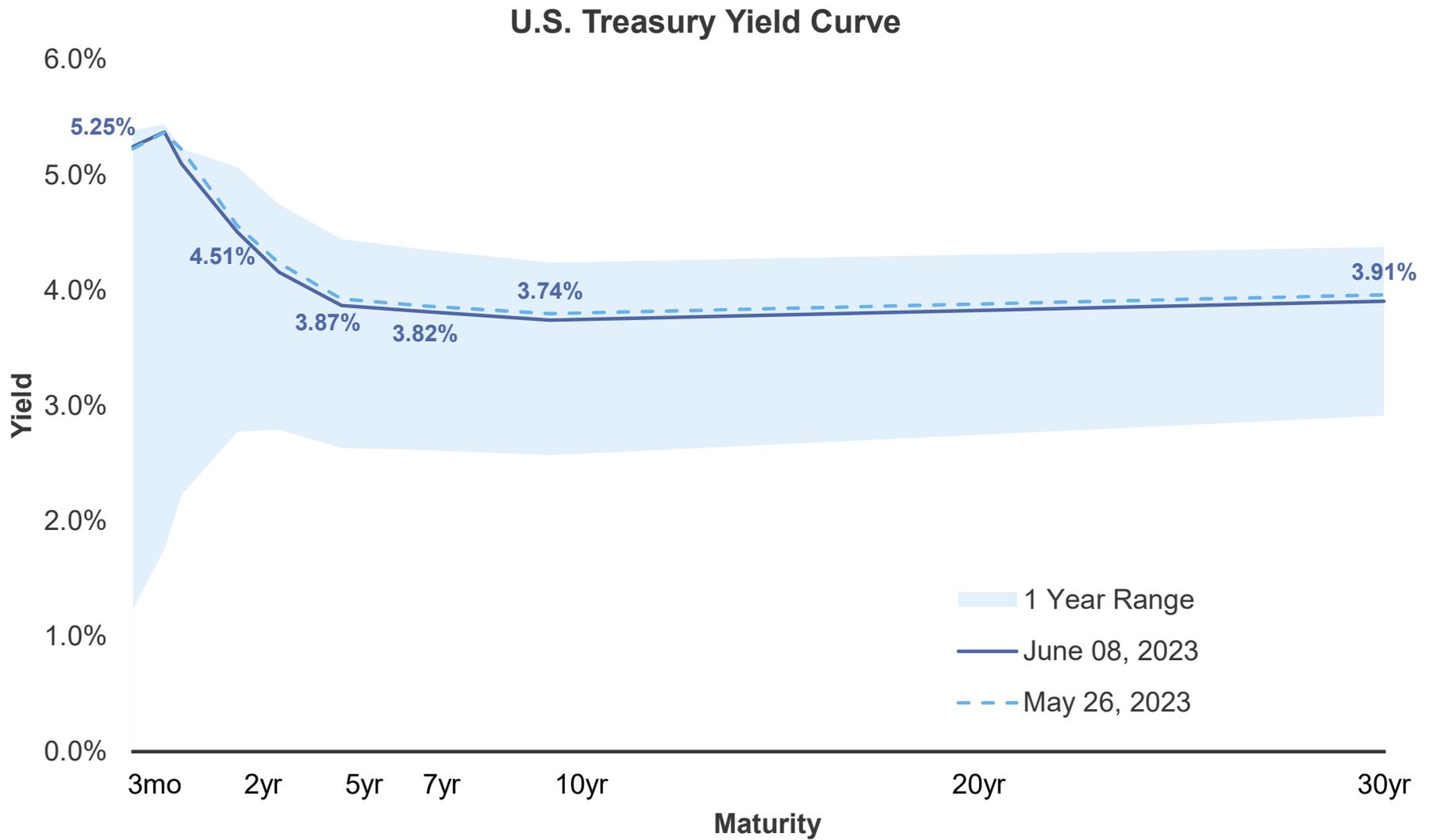


10-Year Treasury Yield



Source: Bloomberg, as of 06/14/2023.

Treasury Curve Climbs From Debt Ceiling and Inflation Data



Source: Bloomberg, as of 06/08/2023.

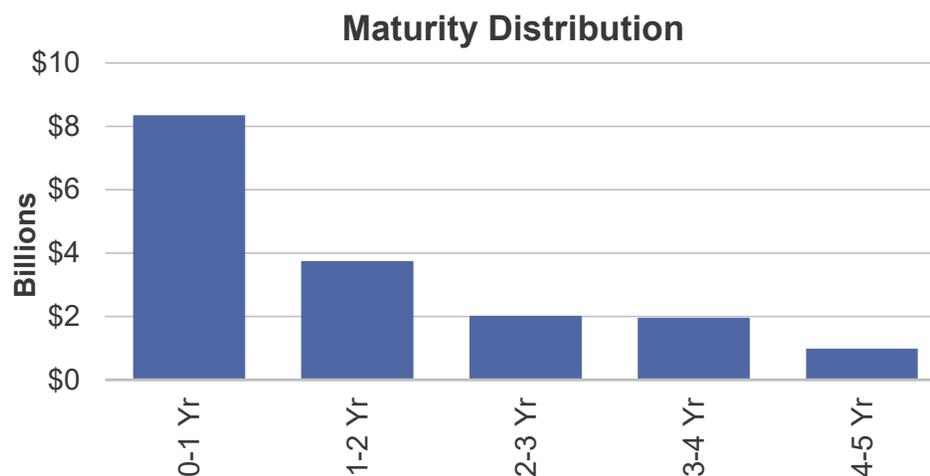
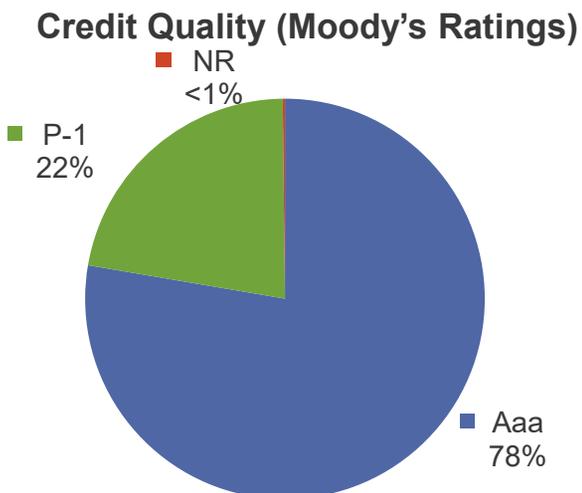
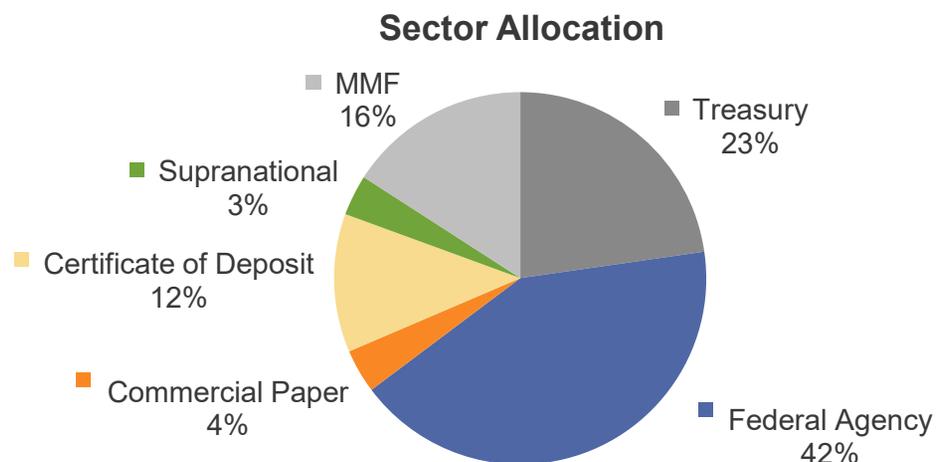
Portfolio Considerations

- Money Market Holdings at \$2,634mm (15.38%).
- Portfolio Duration: 1.06 (June 13, 2023):
- Focus on Managing to the Portfolio's Cashflow Profile
 - Maintaining a portfolio duration consistent with the cashflow profile
 - Focus on net negative cash flow months (Duration Optimization)
 - Purchasing Securities that mature on (or slightly before) a known need – such as Payroll, Debt Service, Capital Projects, etc.; and
 - Emphasis on maintaining our 5-year cash forecast



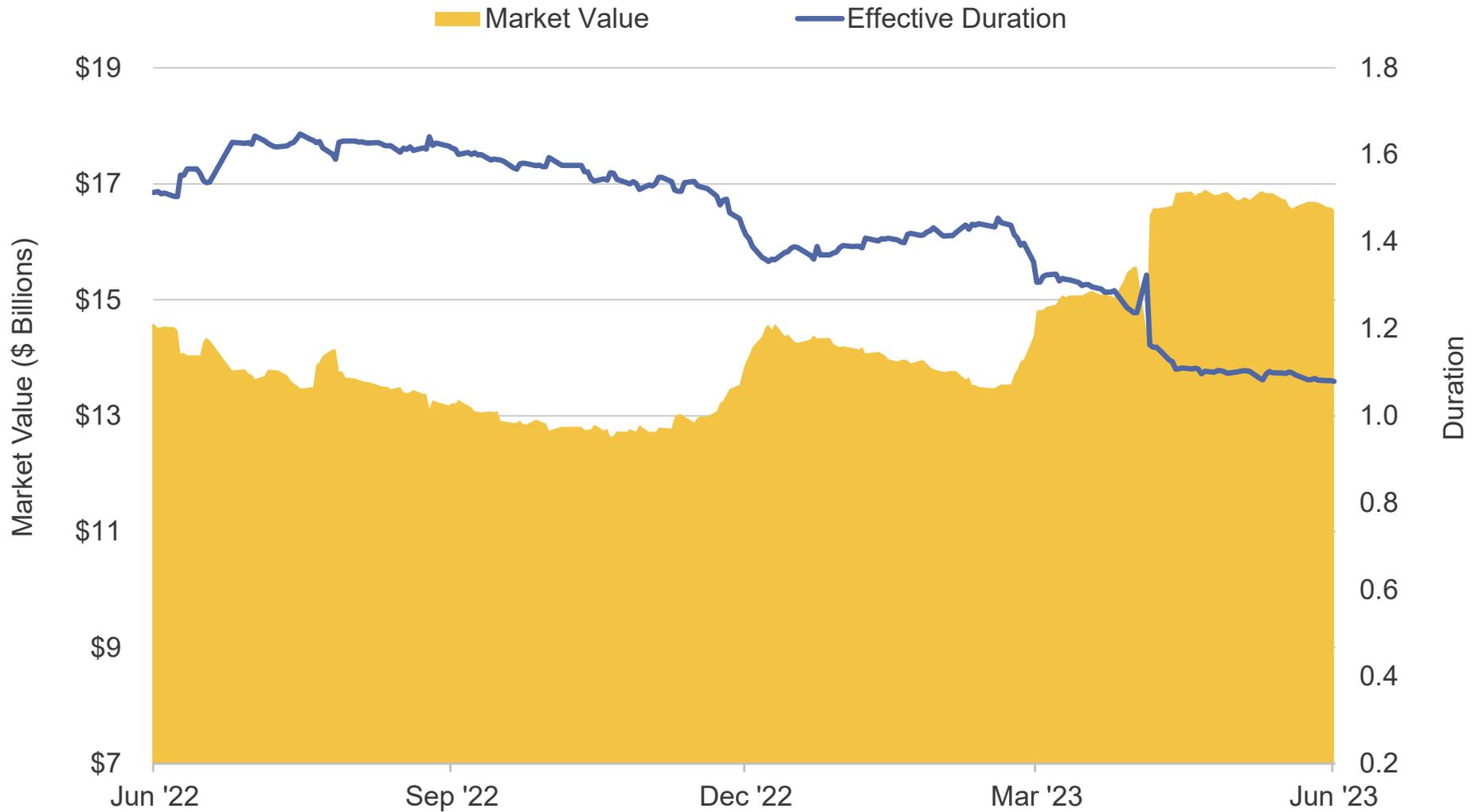
Portfolio Characteristics

| Portfolio Statistics | | |
|-----------------------------|------------|------------|
| | 6/7/2023 | 5/9/2023 |
| Par Amount | \$17.1 bn | \$17.2 bn |
| Average Duration | 1.08 years | 1.13 years |
| Yield to Maturity at Cost | 2.72% | 2.69% |
| Yield to Maturity at Market | 4.76% | 4.43% |



NR (Not Rated) holdings comprise bank CDs. S&P Ratings used if not rated by Moody's.

Historical Portfolio Duration & Market Value

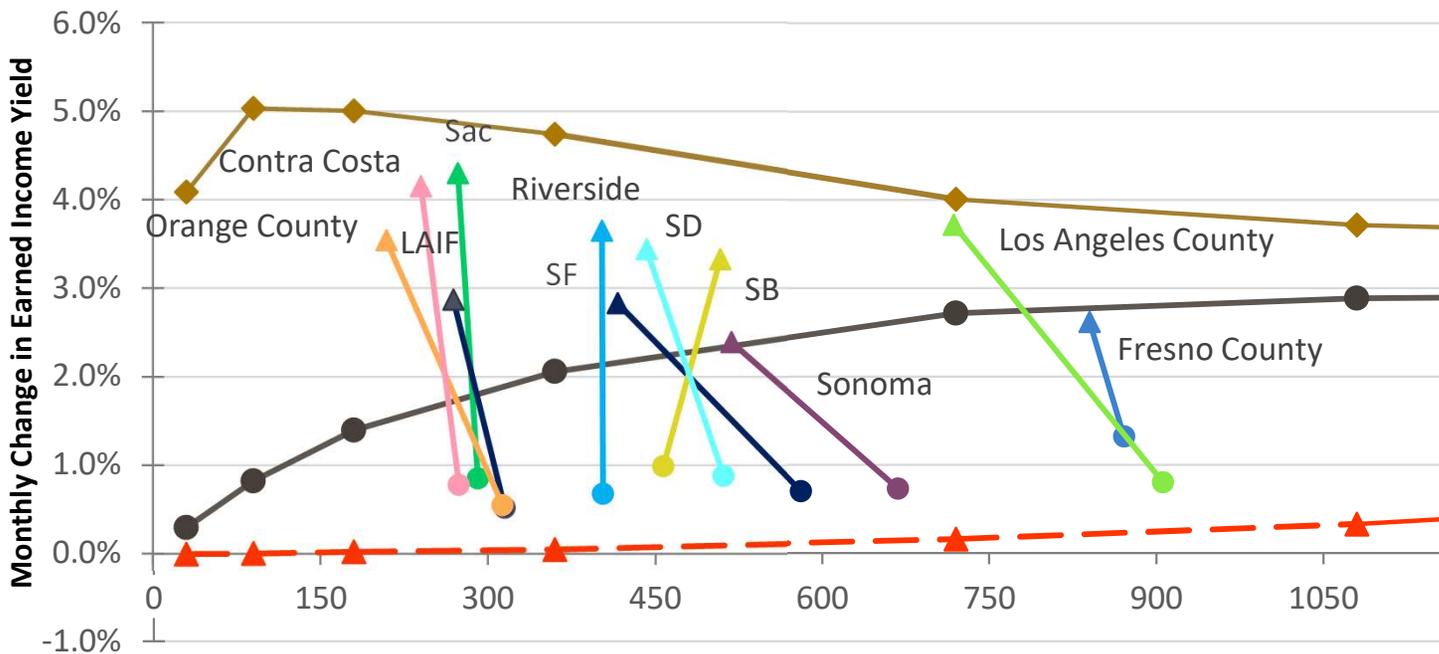


Trade Activity (3/31/2023 – 6/07/2023)



Portfolio data as of 06/07/2023.

County Pooled Fund Statistics

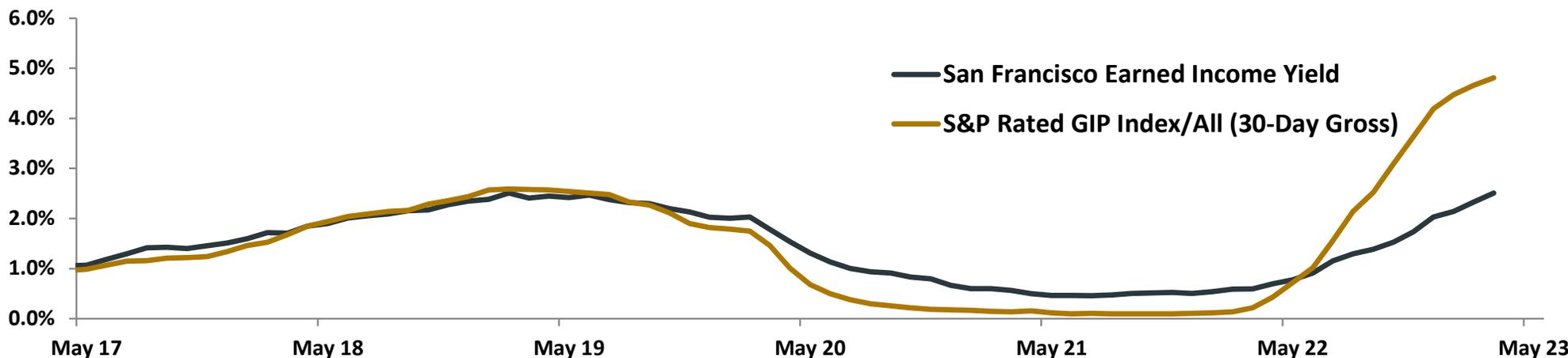


| Name of Fund | Portfolio Size* (\$ mns) |
|----------------------------------|--------------------------|
| Los Angeles County | 57,471.3 |
| LAIF | 27,029.2 |
| San Diego County | 16,896.9 |
| City and County of San Francisco | 16,727.8 |
| Riverside County | 14,757.0 |
| San Bernardino County | 14,212.2 |
| Fresno County | 7,582.2 |
| Orange County | 7,428.6 |
| Sacramento County | 7,283.7 |
| Contra Costa County | 5,891.2 |
| Sonoma County | 3,762.9 |

* as of Apr. 30, 2023

Weight Average Maturity (in days)

◆ Apr. 28, 2023 ● Apr. 29, 2022 ▲ Apr. 30, 2021



Sources: Bloomberg, Sacramento County as of Jun 8, 2023

Pool Participants Breakdown

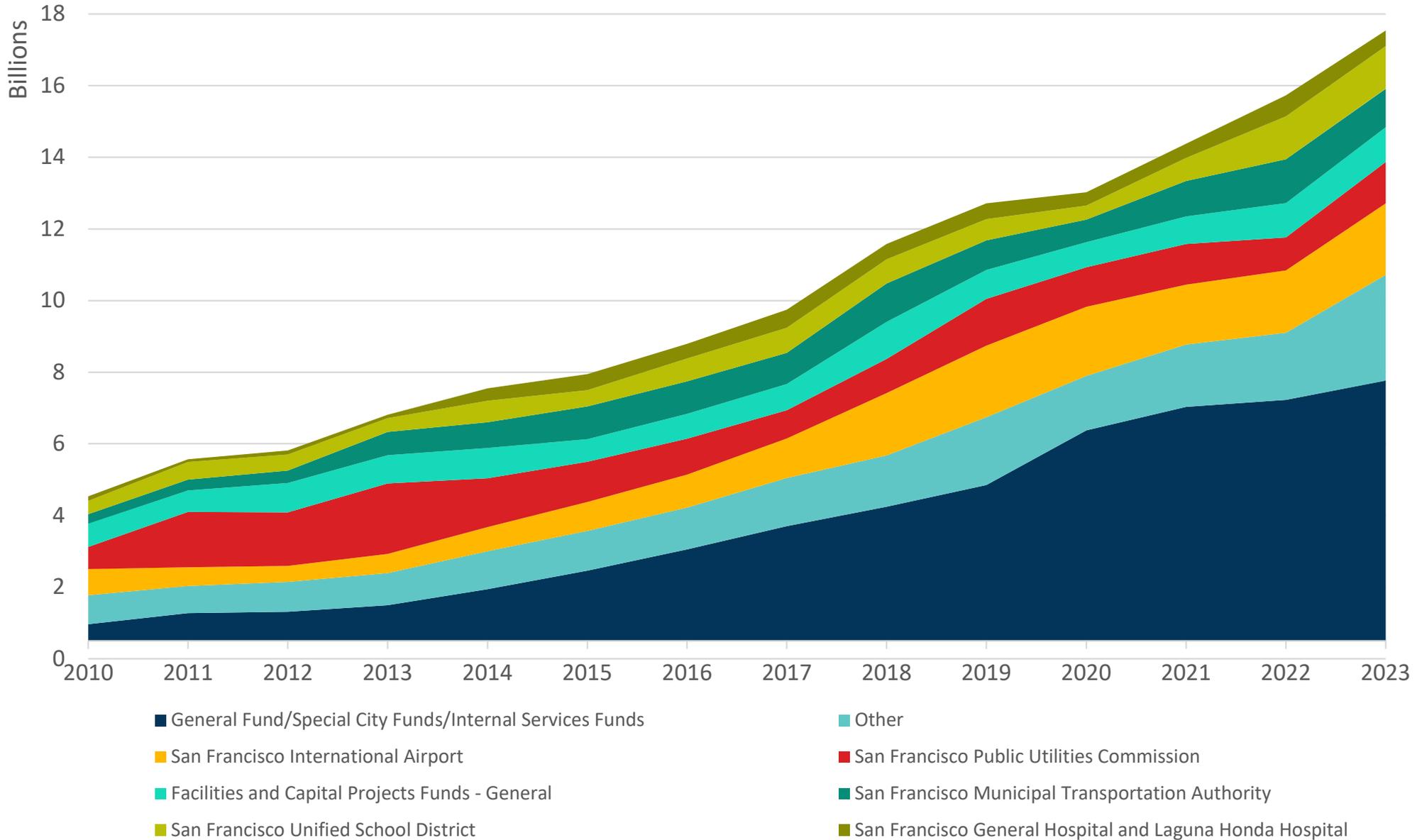
As of May 31, 2023

| Pool Participant | Fund Balance | Percent of Fund |
|--|--------------------------|-----------------|
| General Fund/Special City Funds/Internal Services Funds | \$ 7,270,431,634 | 42.7% |
| San Francisco International Airport | 1,996,896,061 | 11.7% |
| Other agencies (incl. Transbay Joint Powers, Trial Courts) | 1,585,025,234 | 9.3% |
| San Francisco Unified School District | 1,188,067,523 | 7.0% |
| San Francisco Public Utilities Commission | 1,154,848,248 | 6.8% |
| San Francisco Municipal Transportation Authority | 1,076,811,996 | 6.3% |
| Facilities and Capital Projects Funds - General | 969,128,462 | 5.7% |
| San Francisco Community College District | 476,689,880 | 2.8% |
| San Francisco General Hospital and Laguna Honda Hospital | 436,366,752 | 2.6% |
| Port of San Francisco | 357,795,235 | 2.1% |
| OCII - Successor Agency – former SFRDA | 233,641,861 | 1.4% |
| Pension and Retiree Health Care Trust Fund | 187,444,401 | 1.1% |
| San Francisco County Transportation Authority | 61,230,588 | 0.4% |
| Totals | \$ 17,040,950,460 | 100.0% |

Totals may not add due to rounding

Pool Participants Trends

May 31, 2010 – May 31, 2023



Source: 2010 – 2023 Ending Balance Cognos and FSP Impromptu